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EXAMINATION OF FINANCIAL STATEMENTS NATIONAL CONSUMER COOPERATIVE BANK FISCAL YEAR 1980

ORIGINAL
COMPLETED

COMMUNICATION

FROM

THE ACTING COMPTROLLER GENERAL OF THE UNITED STATES

TRANSMITTING

A REPORT ON THE EXAMINATION OF FINANCIAL STATEMENTS OF THE NATIONAL CONSUMER COOPERATIVE BANK FOR FISCAL YEAR 1980, PURSUANT TO SECTION 115 OF PUBLIC LAW 95-351

MARCH 24, 1981.—Referred to the Committees on Government Operations, and Banking, Finance and Urban Affairs and ordered to be printed

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-200951

March 13, 1981

The Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives

Dear Mr. Speaker:

The National Consumer Cooperative Bank was established as a mixed-ownership Government corporation on September 24, 1979, pursuant to the National Consumer Cooperative Bank Act of August 20, 1978. The Bank is authorized to make or guarantee loans and to provide financially related services and technical assistance to qualified cooperatives throughout the United States. The Bank granted 15 loans amounting to $5,126,226 during fiscal 1980.

The enclosed report transmits to the Bank's Board of Directors our opinion on the Bank's financial statements for its first full year of operations ending September 30, 1980. Our audit was made in accordance with the provisions of the Government Corporation Control Act (31 U.S.C. 841 et seq.) and the National Consumer Cooperative Bank Act (12 U.S.C. 3001 et seq.), which require the U.S. General Accounting Office to audit the Bank's financial operations each year.

We are also sending copies of this report to the President of the Senate, the Director of the Office of Management and Budget, and the Chairman of the House Committee on Banking, Finance and Urban Affairs.

Sincerely yours,

D. L. Scantlebury
For Acting Comptroller General
of the United States

Enclosure

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

March 13, 1981

B-200951

To the Board of Directors
National Consumer Cooperative Bank

We have examined the balance sheet of the National Consumer Cooperative Bank as of September 30, 1980, and the related statements of income, changes in equity, and changes in financial position for the year then ended. This was the Bank's first full year of operation. Our examination was made pursuant to the National Consumer Cooperative Bank Act (12 U.S.C. 3001-3050) and the Government Corporation Control Act (31 U.S.C. 841-869) and in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the National Consumer Cooperative Bank as of September 30, 1980, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles.

D. L. Scantlebury
For Acting Comptroller General
of the United States

AFMD-81-45

NATIONAL CONSUMER COOPERATIVE BANK

Balance Sheet
September 30, 1980

Assets		Liabilities and Equity	
Cash	$ 106,644	Accounts payable	$ 160,568
Funds with United States Treasury (note 3)	31,488,774	Payroll withholdings	14,255
Short-term investments (note 4)	200,000	Accrued expenses (note 8)	442,105
Interest receivable (note 5)	61,160		
Other assets	98,515	Commitments (note 13)	
		Total liabilities	616,928
Loans receivable (note 6)	5,126,226		
Less: Allowance for possible loan losses	256,311	Equity (note 9):	
Loans, net	4,869,915	Investment of the U.S. Government:	
		Class A preferred stock	21,471,432
Office furnishings and equipment (note 7)	83,872	Investment of the public:	
Less: Accumulated depreciation	8,634	Class B common stock	254,130
Office furnishings and equipment, net	75,238	Class C common stock	7,500
		Self-Help Fund (note 10)	11,082,456
		Unexpended appropriations for operations (reserved for unexpended obligations)	3,584,493
		Accumulated results of operations	(116,693)
		Total equity	36,283,318
Total assets	$36,900,246	Total liabilities and equity	$36,900,246

The accompanying notes to financial statements are an integral part of these statements.

NATIONAL CONSUMER COOPERATIVE BANK

Statement of Income
Year ended September 30, 1980

Operating income:	
Interest on loans	$ 61,629
Interest on investments	2,750
	64,379
Other revenue:	
Appropriation for operations (note 2)	3,919,553
Total revenue	3,983,932
Operating expenses:	
Personnel compensation	2,017,311
Employee benefits and payroll taxes	608,698
Directors' fees	43,992
Supplies and materials	63,942
Postage and freight	53,314
Telephone and telegraph	42,606
Equipment repairs and maintenance	2,575
Printing and reproduction	86,313
Business insurance	23,473
Advertising	17,042
Rent	
Office	114,021
Other	59,072
Professional fees	
Technical assistance contracts	21,254
Consultants	414,499
Other	13,916
Travel	
Directors	52,580
Other	168,590
Depreciation	8,634
Dues and subscriptions	13,657
Provision for possible loan losses (note 6)	256,311
Other expenses	25,428
Total operating expenses	4,107,228
Results of operations	$ (123,296)

The accompanying notes to financial statements are an integral part of these statements.

NATIONAL CONSUMER COOPERATIVE BANK

Statement of Changes in Equity
Year ended September 30, 1980
(Note 9)

	Common stock	Preferred stock	Self-Help Fund	Accumulated results of operations	Unexpended appropriations for operations	Total equity
Balance at September 30, 1979	$ -	$ -	$ 1,000,000	$ 6,603	$ 153,798	$ 1,160,401
Proceeds from sale of:						
Class A preferred stock	-	21,471,432	-	-	-	21,471,432
Class B common stock	254,130	-	-	-	-	254,130
Class C common stock	7,500	-	-	-	-	7,500
Proceeds from United States Government appropriations:						
Appropriations, net of rescission and lapsed funds	-	-	10,082,456	-	7,350,248	17,432,704
Less: FY-1980 appropriation expenditures	-	-	-	-	(3,919,553)	(3,919,553)
Results of operations for year ended September 30, 1980	-	-	-	(123,296)	-	(123,296)
Balance at September 30, 1980	$261,630	$21,471,432	$11,082,456	$(116,69)	$3,584,493	$36,283,318

The accompanying notes to financial statements are an integral part of these statements.

NATIONAL CONSUMER COOPERATIVE BANK

Statement of Changes in Financial Position
Year ended September 30, 1980

Sources of funds:	
Proceeds from sale of class A preferred stock	21,471,432
Proceeds from sale of class B common stock	254,130
Proceeds from sale of class C common stock	7,500
Proceeds from United States Government appropriations, net of rescissions and lapsed funds:	
Self-Help Fund	10,082,456
Operations	7,350,248
	39,165,766
Increase in liabilities:	
Accounts payable	144,236
Payroll withholdings	14,255
Accrued expenses	442,105
Total sources of funds	39,766,362
Uses of funds:	
By operations:	
Net loss	123,296
Add revenue item that does not provide funds:	
Recognition of revenue from appropriations	3,919,553
Deduct expenses that do not use funds:	
Provision for possible loan losses	(256,311)
Depreciation	(8,634)
	3,777,904
Additions to furnishings and equipment	77,269
Increase in other assets:	
Loans	5,126,226
Accrued interest receivable	61,160
Other assets	98,515
Total uses of funds	9,141,074
Change in cash, funds with United States Treasury, and short-term investments	30,625,288
Cash, funds with United States Treasury, and short-term investments, beginning of year	$ 1,170,130
Cash, funds with United States Treasury, and short-term investments, end of year	$31,795,418

The accompanying notes to financial statements are an integral part of these statements.

1. Organization

The National Consumer Cooperative Bank is a mixed ownership government corporation, chartered by Congress on August 20, 1978, for the purpose of providing loans, technical assistance, capital investment advances, and interest supplement payments to cooperatives.

2. Summary of Significant Accounting Policies

One-year Financial Statements

The Bank began operations on September 25, 1979; the results of operations for the year ended September 30, 1979, covers a six-day period, and are thus not comparable to the results of operations for the year ended September 30, 1980. Accordingly, financial statements are presented for one year only.

Basis of Accounting

Assets and liabilities, income and expenses, are recognized on the accrual basis of accounting.

Basis of Accounting for Appropriations by the United States Government

The United States Government appropriates funds for the purchase of class A stock in the Bank, for the Self-Help Fund, and for operating expenses during the Bank's early stages.

Appropriations for operations, net of any lapsed or rescinded appropriations, are recognized as revenue to the Bank in the year in which the funds are expended for operations. These appropriations are consumed by obligations of the Bank. An obligation occurs when goods are ordered or when a contract for services is signed. Until the goods are received or the services are performed, a portion of the Bank's equity is reserved for these unexpended obligations. (See note 9.)

Allowance for Possible Loan Losses

The Bank is on the allowance method in providing for loan losses. Accordingly, any actual loan losses are to be charged to the allowance for possible loan losses and all recoveries are to be credited to it. The provision for possible loan losses charged to operating expense is based on

(Continued)

2. Summary of Significant Accounting Policies, Continued

factors which, in management's judgment, deserve current recognition in estimating possible loan losses. Such factors include growth and composition of the loan portfolio, the relationship of the allowance for possible loan losses to outstanding loans, and economic conditions.

Furnishings and Equipment

Furnishings and equipment are stated at cost less accumulated depreciation computed on the straight-line method over their estimated useful lives of five years.

Maintenance and repairs are expensed as incurred.

Income Taxes

The Bank has been denied an exemption by the Internal Revenue Service from federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954. An application has been made requesting IRS to reconsider its denial.

Section 109 of the National Consumer Cooperative Bank Act (Public Law 95-351) provides that, until the class A stock purchased by the United States government is redeemed, the Bank is exempt from state and local income taxes.

Retirement/Thrift Plan

The Bank is implementing a trusteed retirement/thrift plan covering substantially all of the employees of the Bank. An estimate of the Bank's past service cost through September 30, 1980, has been accrued in the amount of $150,000.

3. Funds with United States Treasury

Funds with United States Treasury include accounts for the following purposes:

Operations	$ 4,098,389
Title I loans	16,307,929
Self-Help Fund	11,082,456
	$31,488,774

(Continued)

3. Funds with United States Treasury, Continued

The amounts reported above are net of lapsed appropriated funds. Funds for the purchase of class A stock and for the Self-Help Fund have been appropriated for a period of two years. Funds for operations have been appropriated for one year. At the end of that period of time, any funds which have not been obligated by the Bank lapse and revert to the United States Treasury. At September 30, 1980, the following appropriated funds lapsed:

Operations (fiscal year 1980)	$ 44,752
Self-Help Fund (fiscal year 1979)	417,544
	$462,296

4. Short-term Investments

Short-term investments consist of United States Treasury Notes purchased at a rate of 9.75% under agreement to resell on October 15, 1980.

5. Interest Receivable

Interest receivable consists of the following:

Interest receivable on current loans	$60,359
Interest receivable on investments	801
	$61,160

6. Loans

A breakdown of loans included in the balance sheet follows:

Housing	$ 271,513
Food	1,957,762
Other consumer goods	2,763,961
Producer	132,990
	$5,126,226

The allowance for possible loan losses of the Bank as of September 30, 1980, is five percent of total loans outstanding, and results entirely from the provision for possible loan losses charged to operating expense.

(Continued)

7. Furnishings and Equipment

The following presents the amounts of furnishings and equipment of the Bank at September 30, 1980:

Equipment	$80,106
Furnishings	2,672
Books	1,094
	83,872
Less accumulated depreciation	8,634
	$75,238

8. Accrued Expenses

Unpaid accrued expenses at September 30, 1980, consist of the following:

Retirement/thrift plan contribution	$150,000
Salaries and wages	93,875
Vacation pay	82,783
Payroll taxes	23,224
Other	92,223
	$442,105

9. Equity

The Bank's capital consists of class A preferred stock subscribed by the United States Government, class B common stock subscribed by borrowers from the Bank, and class C common stock subscribed by eligible borrowers from the Bank. As explained in note 2, the United States Government appropriates additional nonreturnable funds for operations and for the Self-Help Fund.

The Bank's capital stock consists of the following:

	Class A	Class B	Class C
Par value per share	$100	$100	$100
Shares authorized	3,000,000	100,000	100,000
Shares issued and outstanding	214,714	2,541	75

Shares of class A stock have preference with respect to assets and dividends over all other classes of stock. Dividends may not be paid on class B stock.

(Continued)

9. Equity, Continued

Each holder of common stock is entitled to one vote in the affairs of the Bank, regardless of the number of shares held by that stockholder.

Self-Help Fund appropriations by the United States Government consist of cumulative appropriations for the Self-Help Fund, net of funds lapsed and rescinded, as follows:

	Fiscal year 1979 appropriation	Fiscal year 1980 appropriation	Total
Appropriations	$1,000,000	$17,000,000	$18,000,000
Funds rescinded, July 8, 1980	-	(6,500,000)	(6,500,000)
Funds lapsed, September 30, 1980	(417,544)	-	(417,544)
	$ 582,456	$10,500,000	$11,082,456

Unexpended appropriations for operations consist of that portion of appropriations for operations which has been obligated for goods or services but which has not yet resulted in an expense to the Bank. At September 30, 1980, the balance arises as follows (these funds are reserved for payment of unexpended obligations):

	Fiscal year 1979 appropriation	Fiscal year 1980 appropriation	Total
Appropriations	$1,500,000	$7,950,000	$9,450,000
Funds rescinded, July 8, 1980	-	(555,000)	(555,000)
Funds lapsed, September 30, 1979 and 1980	(1,329,870)	(44,752)	(1,374,622)
Appropriations realized, net	170,130	7,350,248	7,520,378
Revenue recognized:			
Fiscal year 1979	(16,332)	-	(16,332)
Fiscal year 1980	(151,426)	(3,768,127)	(3,919,553)
	$ 2,372	$3,582,121	$3,584,493

(Continued)

9. Equity, Continued

The amount of unexpended appropriations for operations at September 30, 1980, corresponds to those obligations for goods and services which have not yet been received or performed. They consist principally of uncompleted contracts for the delivery of technical assistance, and professional fees for services to be rendered in the future, as follows:

Technical assistance contracts	$1,987,541
Audit services	25,000
Other professional service contracts	631,466
Office renovations	681,557
Other	258,929
	$3,584,493

10. Self-Help Fund

The Self-Help Fund, under the provisions of the National Consumer Cooperative Bank Act, may be used only to provide capital investment advances and interest supplement payments to eligible cooperatives. A similar restriction is imposed on repayments of and interest received on these advances and payments.

11. Operating Lease

The Bank leases its Washington, D.C. premises under a five-year operating lease with General Services Administration, which is cancelable with 120 days' notice. The agreement has an escalation clause effective after 1983. Minimum future rental payments, assuming noncancellation, are as follows:

Year ended September 30,	
1981	$ 321,300
1982	321,300
1983	321,300
1984	321,300
1985	107,100
	$1,392,300

The rental expense under this lease in 1980 is $110,021.

(Continued)

12. Retirement/Thrift Plan

The provision for retirement/thrift plan charged to earnings amounts to $150,000 in 1980 which is the estimated past service costs of the plan.

13. Commitments

In the normal course of business, there are outstanding commitments to extend credit which are not reflected in the accompanying financial statements. At September 30, 1980, these commitments amount to $11,718,604.

14. Subsequent Event

President Reagan's February 18, 1981 Program for Economic Recovery includes proposals that appropriations for the lending programs of the National Consumer Cooperative Bank, which have amounted in total to $174.9 million through fiscal year 1981, be reduced by $91 million; that there be no Federal funding beyond September 30,1981; and that the Bank be terminated. There has been no congressional action on these proposals.